

Q2 2006

Quarterly

ECONOMIC REPORT

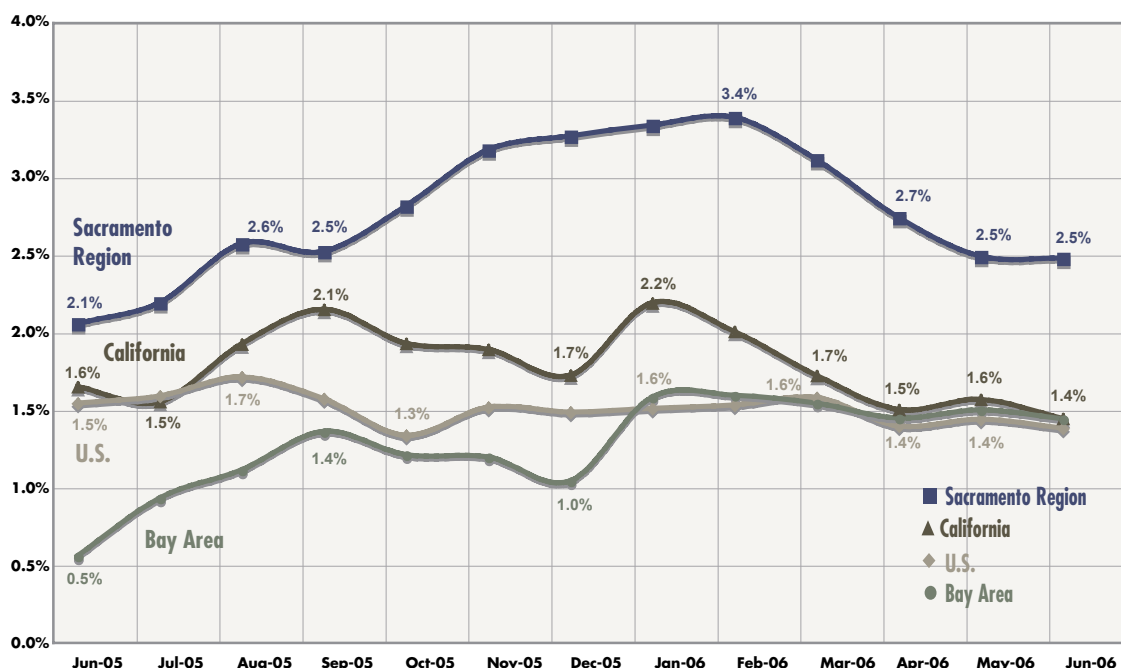
The Sacramento Region's Fairly Strong Job Growth Puts it at the Top of the List of Major and Neighboring Regions in the State

Job growth in the Sacramento Region leveled out in June 2006 after three months of declining year-over-year employment growth rates. Despite these recent declines, the Region's job growth exceeded the statewide and national averages by about 1 percentage point over the second quarter of 2006. In the past 12 months, the Region posted 2.5 percent employment growth with an increase of 22,900 jobs. While this level of job growth remains fairly strong, it is notably lower than the February 2006 peak of 3.4 percent mainly

as a result of decreasing employment growth rates in the Construction and Financial Activities sectors.

The state's year-over-year employment growth rates tracked close to the national average during the second quarter of 2006, after placing well above the nation for most of the past year. From its highest point in the last 12 months, 2.2 percent in January 2006, the state's job growth dropped to 1.4 percent in June 2006 (reflecting a gain of 213,300 jobs).

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Job Growth

Sacramento Region, Bay Area, California and United States

Sacramento Regional Research Institute, July 2006. Data Sources: California Employment Development Department and US Bureau of Labor Statistics.

Note: Job growth reflects year-over-year employment growth rates.

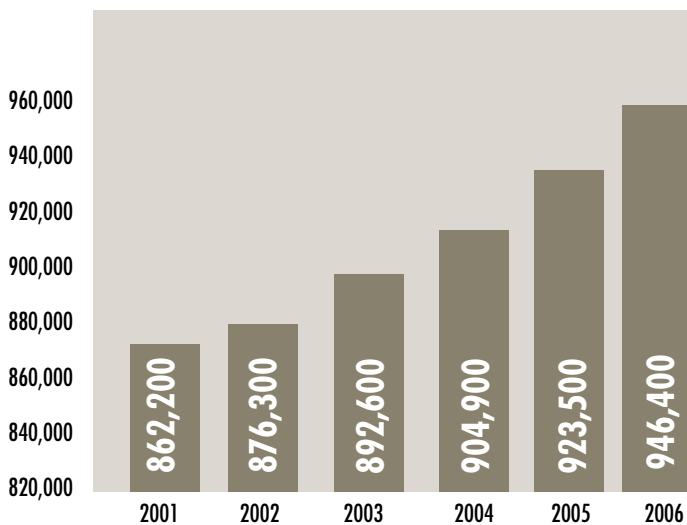
An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRRI), a joint venture of SACTO and California State University, Sacramento

Job Growth *cont.*

Continuing its flat job growth trend, the nation posted 1.4 percent growth in June 2006 with a 12-month gain of 1.8 million jobs. This rate is slightly below the nation's average employment growth rate over its ongoing flat trend—a moderate 1.5 percent.

Between June 2005 and 2006 the Bay Area added 41,000 jobs with a growth rate of 1.4 percent. After undergoing a notable economic recovery during which the Bay Area surpassed 1 percent growth in August 2005 and reached a peak of 1.6 percent in January 2006, it has hovered around 1.5 percent job growth in recent months. This recent trend has placed the Bay Area near the statewide and national averages—a positive milestone in its economic recovery.

In June 2006, the Sacramento Region posted the strongest job growth among neighboring economies and the state's largest regions. The Sacramento Region and Inland Empire were the only two regions to experience year-over-year employment growth rates above 2 percent. These two dynamic inland regions have regularly topped the list of major regions in the state over the past few years, alternating between first and second place. Stockton and Solano were the only other selected regions to exceed the statewide and national average job growth between June 2005 and 2006. Over the past 12 months, the state's larger inland areas (with the exception of Fresno) have made a notable contribution to the state's economy, while the large coastal regions have all fallen around or below the statewide and national averages.

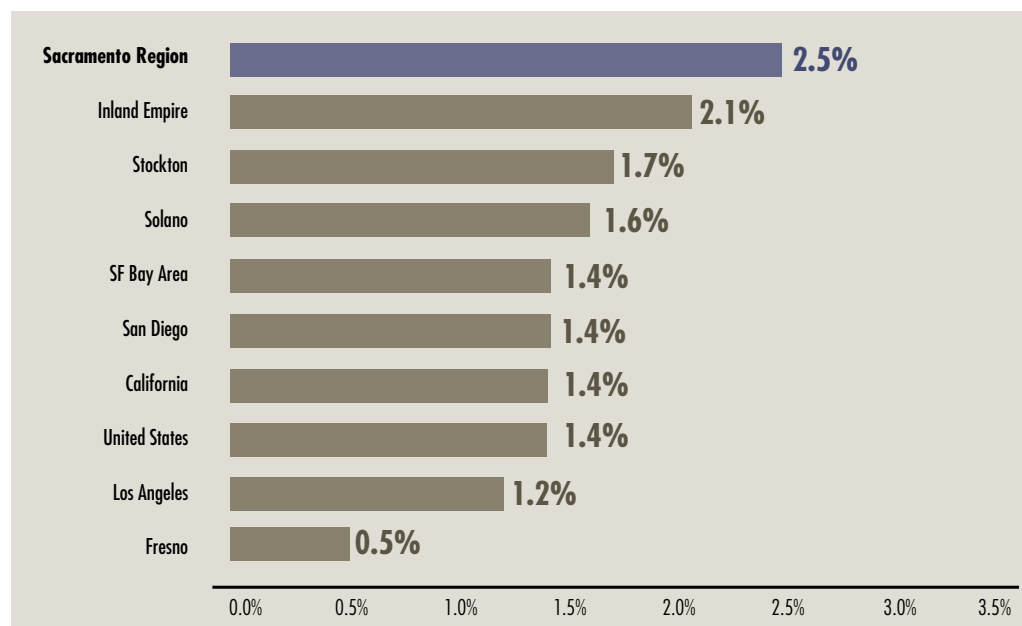


Sacramento Region Employment June 2001–2006

Sacramento Regional Research Institute, July 2006
Data Source: California Employment Development Department

Employment Growth Rates Selected Regions, June 2005–2006

Sacramento Regional
Research Institute, July 2006
Data Sources: California Employment
Development Department and
US Bureau of Labor Statistics



The Sacramento Region's Professional & Business Services; Leisure & Hospitality; and Government Sectors Generated the Most Jobs in the Sacramento Region Over the Past Year

The Professional & Business Services; Leisure & Hospitality; and Government sectors posted the greatest employment gains in the Sacramento Region among its major sectors over the past 12 months. These three sectors added 14,500 jobs, making up about 63 percent of the Region's net job gain between June 2005 and 2006. While still adding jobs, the Construction and Financial Activities sectors have recently become lesser factors in the Region's job growth. Professional & Business Services has remained at the top of the list for a number of months as a result of improved performance and declining job growth in previously important sectors. The Region's unique Manufacturing strength continued in June 2006 with the sector posting an increase of 1,800 jobs while the declines in this sector at the statewide level persisted. Only the Other Services and Information sectors saw employment declines over the past year.

Major Sector Employment Gains and Losses

Sacramento Region, Bay Area and California

	June 2005-2006		
Sector	Sacramento Region	California	Bay Area
Total Nonfarm	22,900	213,300	41,000
Private Sector	18,200	188,400	38,900
Public Sector	4,700	24,900	2,100
Prof. & Business Svcs.	4,900	61,500	9,300
Leisure & Hospitality	4,900	35,700	6,500
Government	4,700	24,900	2,100
Trade, Trans., & Util.	4,300	26,500	4,600
Manufacturing	1,800	-2,300	2,000
Construction	1,500	17,500	9,700
Edu. & Health Svcs.	1,100	23,600	5,900
Financial Activities	800	15,300	3,600
Nat. Res. & Mining	0	800	0
Other Services	-300	8,300	-300
Information	-800	1,500	-2,400

Sacramento Regional Research Institute, July 2006

Data Source: California Employment Development Department

Professional & Business Services; Leisure & Hospitality; and Trade, Transportation, & Utilities created the most private sector jobs in the past 12 months in the state (similar to the Sacramento Region). Together, these three sectors added 123,700 jobs and accounted for approximately 58 percent of the state's net job gain. The contributions of the Construction and Financial Activities sectors have also fallen at the statewide level. The Information sector shifted back to positive growth in June 2006, leaving year-over-year employment losses only within the state's Manufacturing sector.

Unlike the state and Sacramento Region, Construction was the leading sector in the Bay Area between June 2005 and 2006, followed by Professional & Business Services and Leisure & Hospitality. With a total increase of 25,500 jobs, the Bay Area's three leading sectors comprised over 62 percent of its net job increase. Similar to the Sacramento Region, Manufacturing posted positive job gains and Other Services and Information experienced job losses over the past 12 months in the Bay Area.

The Sacramento Region's largest Metropolitan Statistical Area (MSA), Sacramento-Arden Arcade-Roseville (El Dorado, Placer, Sacramento, and Yolo Counties), contributed about 93 percent of the Region's net employment increase between June 2005 and 2006, posting 2.4 percent job growth. Employment gains in this MSA were driven by the Leisure & Hospitality;

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Employment Gains and Losses

Components of Sacramento Region and Bay Area

	June 2005-2006	
Area	Absolute	Rate
Sacramento Region	22,900	2.5%
Sacramento-Arden Arcade-Roseville MSA	21,300	2.4%
Yuba City MSA	1,600	4.0%
Bay Area	41,000	1.4%
Oakland-Fremont-Hayward Div.	24,500	2.4%
San Francisco-San Mateo-Redwood City Div.	12,400	1.3%
San Jose-Sunnyvale-Santa Clara MSA	4,100	0.5%

Sacramento Regional Research Institute, July 2006

Data Sources: California Employment Development Department

Sector Gains and Losses *cont.*

Professional & Business Services; and Government sectors. The Yuba City MSA (Sutter and Yuba Counties) experienced strong job growth in June 2006 (4.0 percent) and accounted for approximately 7 percent of the Region's net gain. Much of this MSA's employment increase was posted in the Government sector with a number of other sectors showing modest gains. While still showing strong growth, the Yuba City MSA has seen notable decline in job growth, falling from a peak of 7.9 percent in January 2006.

With 2.4 percent job growth, the Oakland-Fremont-Hayward Metropolitan Division (Alameda and Contra Costa Counties) was the Bay Area's strongest economy in June 2006, adding nearly 60 percent of the Bay Area's 12-month employment increase. The Construction; Professional & Business Services; and Educational & Health Services sectors were the greatest contributors to

this Metropolitan Division's growth. The San Francisco-San Mateo-Redwood City Metropolitan Division (Marin, San Francisco, and San Mateo Counties) posted modest job growth between June 2005 and 2006 (1.3 percent) and accounted for about 30 percent of the Bay Area's net job gains. Professional & Business Services and Leisure & Hospitality were the strongest sectors in the San Francisco-San Mateo-Redwood City Metropolitan Division over this time period. The Silicon Valley, captured within the San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties), has yet to regain a strong economic position within the Bay Area. Over the past 12 months, it posted positive, but limited, job growth (0.5 percent) and captured only 10 percent of the Bay Area's net employment increase. The MSA's job growth has been driven by its Leisure & Hospitality; Educational & Health Services; and Trade, Transportation, & Utilities sectors.

While Still Exhibiting Healthy Employment Conditions with Employment Opportunities Growing Faster than Employable Residents, the Sacramento Region's Economic Health has Declined in Recent Months

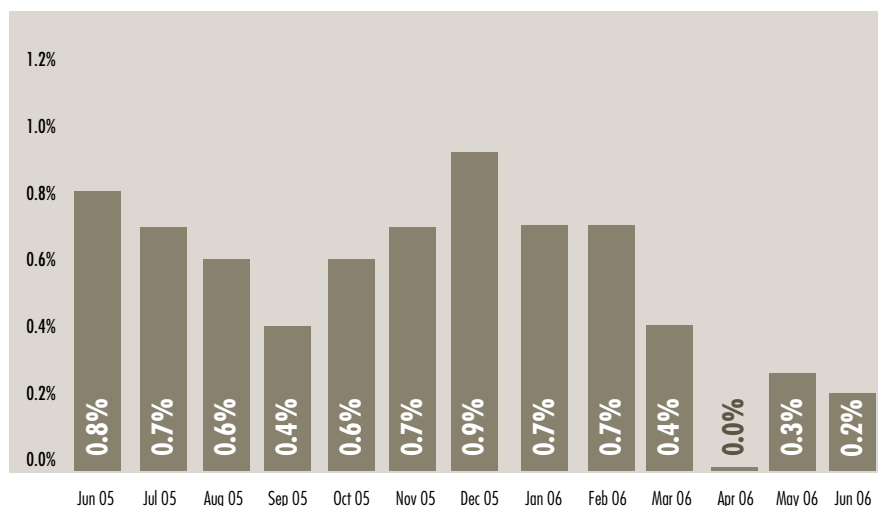
Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. For the past 12 months, the Sacramento Region has shown healthy conditions with employment opportunities available to the Region's residents growing faster than the number of employable people. The healthiest conditions over the past year were posted in December 2005 with a divergence in year-over-year growth rates just under 1.0 percentage point. Since this peak, the Region's economic health has declined with minimal positive growth rate divergence posted over the second quarter of 2006.

Sacramento Region Economic Health

Sacramento Regional Research Institute, July 2006

Data Source: California Employment Development Department

Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.

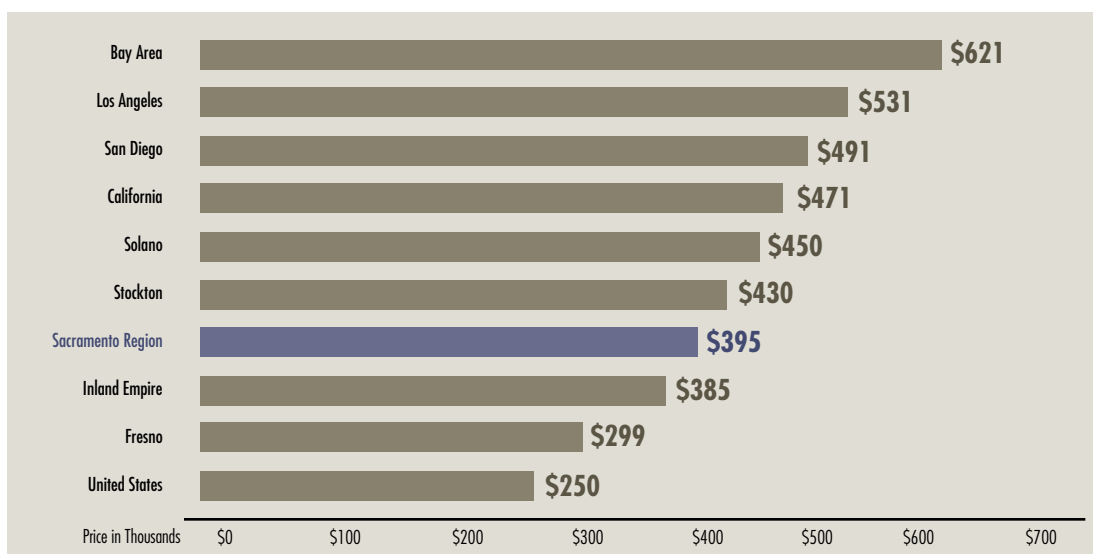


The Sacramento Region Posted Home Sale Price Declines and Housing Affordability Increases Compared to the Last Quarter, Ending the Recent Pattern of Generally Increasing Prices and Declining Affordability

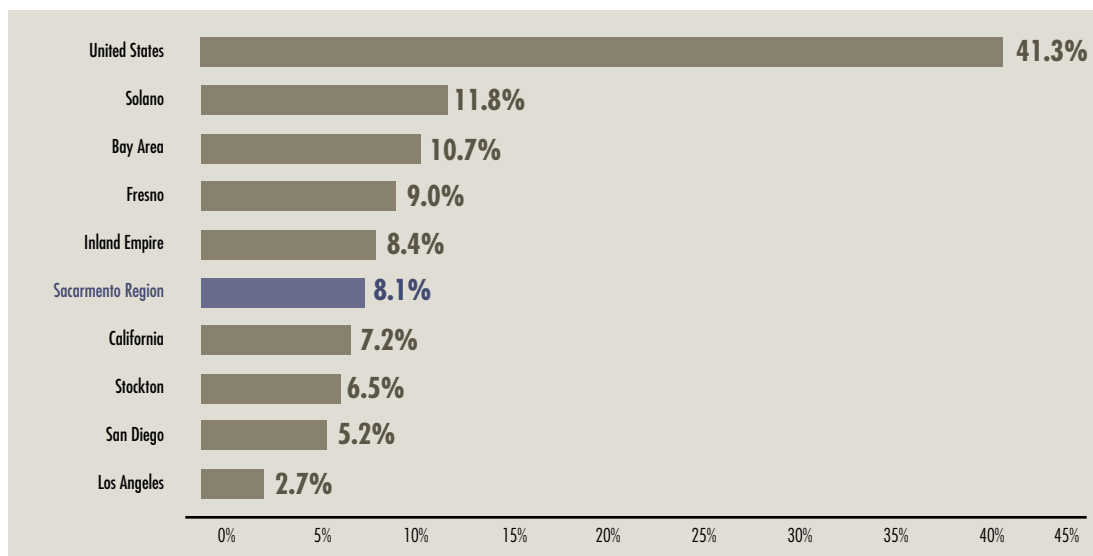
For the first quarter of 2006, the Sacramento Region maintained one of the lowest median home sale prices among neighboring and major regions in the state at \$395,000. The state's coastal regions saw home sale prices above the statewide average while the inland areas all posted prices below California's average home sale price. Only one of the selected regions, Fresno, posted a home sale price near the national average. While every selected region experienced an increase in home sale prices compared to the first quarter of 2005 (the Sacramento Region posted an approximately 9 percent increase), nearly all regions saw a price decline from the fourth quarter of 2005 (prices in the Region dropped nearly 4 percent). Only the Inland Empire and the Bay Area posted a price increase over the last quarter. The general quarterly decline marks a shift from the recent trend of continuous price increases.

About 8 percent of the homes sold in the Sacramento Region in the first quarter of 2006 were affordable to families earning a median income. The Region's Housing Opportunity Index fell above the statewide average and in the middle of the selected neighboring and major regions. Similar to the recent home sale price patterns, all selected regions posted a decline in affordability from the same quarter in the previous year, but have seen an increase in affordability compared to the last quarter. In the Sacramento Region, the Housing Opportunity Index declined close to 5 points year-over-year and increased nearly 1 point from the last quarter. Los Angeles and Solano were the only two regions where this recent shift did not hold—both continued to experience general quarterly declines in affordability.

Home Sale Price
Selected Regions,
First Quarter 2006
Sacramento Regional Research
Institute, July 2006
Data Source: National
Association of Home Builders—
Wells Fargo Housing
Opportunity Index



Housing Opportunity Index
Selected Regions,
First Quarter 2006
Sacramento Regional
Research Institute,
July 2006
Data Source: National
Association of Home
Builders—Wells Fargo
Housing Opportunity Index
Note: Housing Opportunity
Index reflects share of homes
sold that would have been
affordable to a family earning
the median income.



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Business Component Update

The Sacramento Regional Research Institute (SRRI) developed the Prosperity Index to provide business and community leaders in the Sacramento Region a valuable tool to measure economic prosperity and track its performance against competitor regions in order to evaluate the competition, identify opportunities for improvement and ultimately impact change in the Region. Along with the national average, ten competitor regions were chosen as benchmarks for this analysis based on feedback from regional economic development organizations regarding metropolitan areas that often compete with the Region for business location and expansion projects. SRRI will update the overall Prosperity Index annually—which measures indicators in the three areas of **BUSINESS**, **PEOPLE** and **PLACE**. The **BUSINESS** component will be updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2005 report, please visit www.srri.net.

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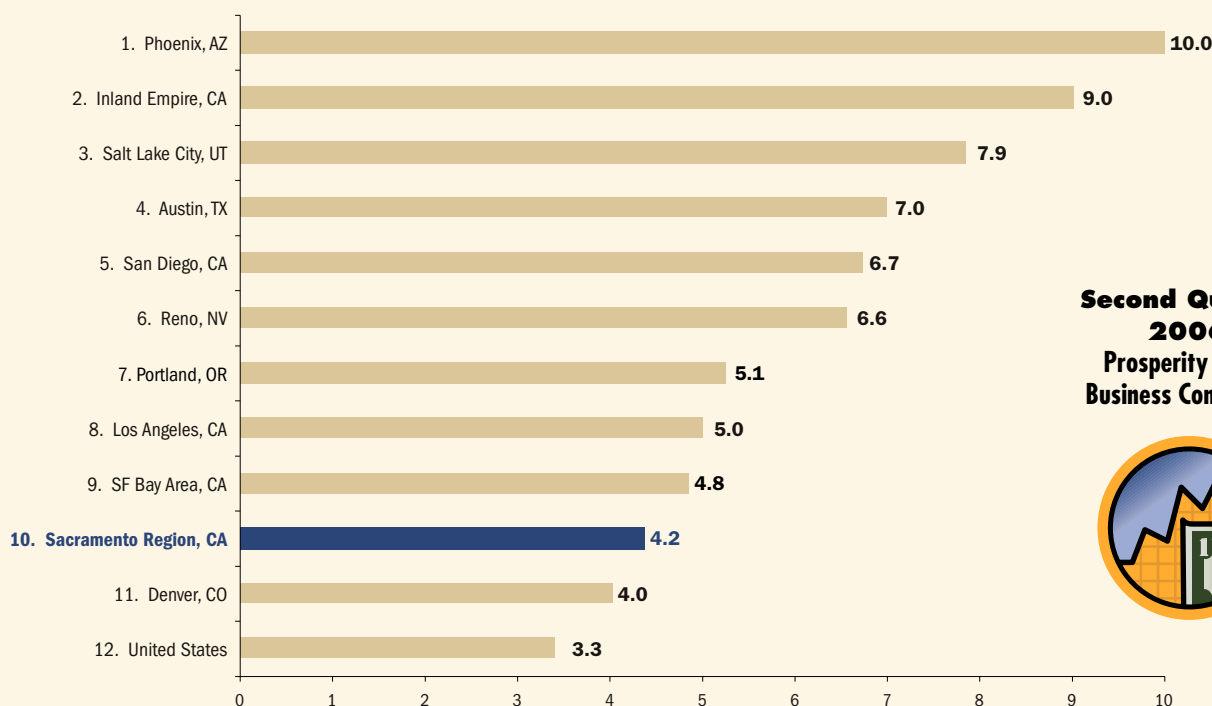


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The Second Quarter 2006 Prosperity Index Business Component Shows that the Sacramento Region Maintained a Somewhat Low Competitive Position

The Sacramento Region remained in tenth place among its main competitors on the **BUSINESS** component of the **PROSPERITY INDEX** for the second quarter of 2006. The Region received a score of 4.2 out of a possible 10 points, a slight decline from the first quarter 2006 score of 4.6 (but the same rank). Although the Region placed above the national average, it remained below all other measured California regions and near the bottom of the overall list. Moderate scores in Establishment Growth and Unemployment Rate along with relatively low scores

in the remaining indicators drove the Region's Business component score. Only Establishment Growth and Payroll Growth posted improvements from the first quarter of 2006 in the Sacramento Region. Phoenix remained at the top of the list due to its high scores in the majority of the indicators while Denver and the United States lingered at the bottom of the list as a result of low scores in most indicators. Overall, relative to its main competitors, the Sacramento Region has presented a fairly low competitive position in terms of business climate.



**Second Quarter
2006
Prosperity Index
Business Component**



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Second Quarter 2006 Prosperity Index: Business Component Indicator Scores

Region	Establishment Growth	Job Growth	Office Vacancy Rate	Payroll Growth	Unemployment Rate	Venture Capital Investment
Austin, TX	5.1	7.4	0.0	5.3	7.8	3.0
SF Bay Area, CA	0.0	0.0	3.1	2.2	4.3	10.0
Denver, CO	6.5	1.9	0.3	2.7	3.9	1.3
Inland Empire, CA	6.3	9.1	10.0	7.4	4.2	0.0
Los Angeles, CA	4.7	1.5	8.9	0.0	4.6	0.8
Phoenix, AZ	8.0	10.0	4.1	10.0	8.6	0.2
Portland, OR-WA	9.8	4.1	4.5	2.0	0.0	0.4
Reno, NV	8.4	5.8	1.2	1.5	10.0	0.0
Sacramento Region, CA	4.2 (+)	3.0(-)	2.9(-)	3.0(+)	4.1(-)	0.0(-)
Salt Lake City, UT	10.0	5.5	4.0	4.1	7.9	1.1
San Diego, CA	3.5	1.8	8.5	2.0	8.1	3.4
United States	5.0	1.7	2.7	0.0	3.6	0.6

Sacramento Regional Research Institute, July 2006

Note: + refers to improvement in score over Q1 2006 and - represents decrease in score from Q1 2006.

Benchmark Regions

Sacramento Region, CA—El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties

Austin, TX—Bastrop, Caldwell, Hays, Travis, and Williamson Counties

SF Bay Area, CA—Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara Counties

Denver, CO—Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park, and Boulder Counties

Inland Empire, CA—Riverside and San Bernardino Counties

Los Angeles, CA—Orange, Los Angeles, and Ventura Counties

Phoenix, AZ—Maricopa and Pinal Counties

Portland, OR-WA—Clackamas, Columbia, Multnomah, Washington, Yamhill Counties in Oregon and Clark and Skamania Counties in Washington

Reno, NV—Storey and Washoe Counties

Salt Lake City, UT—Salt Lake, Summit, Tooele, Davis, Morgan, and Weber Counties

San Diego, CA—San Diego County

United States—national average

Prosperity Index Business Component Indicators

Job Growth accounts for the year-over-year percentage increase in average third quarter employment from 2004 to 2005. This measure is often viewed as an indicator of overall economic performance since employment is the primary source of income for residents and changes in the level of jobs reflect local business patterns. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Establishment Growth measures the percentage increase in firms from the third quarter of 2004 to the same quarter of 2005. As an indicator of the overall business climate, this measure shows net changes in the number of businesses and captures firm births and deaths. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Office Vacancy Rate calculates the percentage of the total net rentable area of office property that was unoccupied in the first quarter of 2006. High vacancies indicate a lack of demand and/or overdevelopment and can also be interpreted as signs of economic slowdown. Regions with high vacancy rates receive low scores on this indicator. The sources for this data are the CB Richard Ellis Office Vacancy Index and Market View reports and Colliers International Market Reports.

Payroll Growth measures the percentage increase in aggregate compensation over a one-year period (in this case, from the third quarter of 2004 to the third quarter of 2005). This data provides insight into changes in total industry payrolls, pointing to general business performance and the level of available consumption and savings activity. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Unemployment Rate calculates a 12-month moving average (ending in March 2006) percentage of the labor force that was unemployed. Higher unemployment rates indicate signs of economic slowdowns, increased competition for jobs, and decreased ability to generate income while lower rates tend to signify growth and expansion. Regions with low unemployment rates receive higher scores on this indicator. The source for this data is the Bureau of Labor Statistics' Local Area Unemployment Statistics.

Venture Capital Investment accounts for total venture capital funds invested in local companies per employee in the first quarter of 2006. This indicator not only points to perceptions in the investment community about a region's innovation capacity and investment risk, but also has future implications since firms receiving venture capital use the funds in an attempt to innovate, develop products and services, and become more productive in the future. The sources for this data are Venture Economics' Quarterly Statistics and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

SACTO Prospect Activity Update

SACTO continues to see a strong interest in the Sacramento region from companies outside of the state. Out-of-state prospects account for 46% of SACTO's active prospects and new projects are adding on a weekly basis. Bay Area firms also continue to explore the region for back-office operations, redundant facilities, and possible relocations. The majority of the Bay Area activity is emanating from the East Bay.

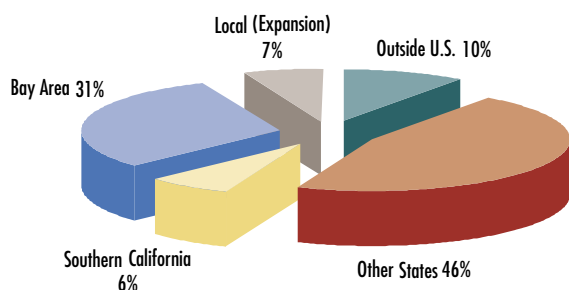
The Sacramento region continues to buck both the state and national trend in regards to manufacturing. While manufacturing is on the decline in both California and the U.S., the Sacramento region added 1,800 manufacturing jobs between June 2005 and June 2006, and prospect activity in manufacturing represents 37% of all active prospects that SACTO is currently assisting. SACTO has not seen any slowdown in the manufacturing sector and is currently working with several large, household name manufacturers. Overall industrial activity, which includes manufacturing and distribution, is still SACTO's largest user

category at 56%. Prospective industrial companies are interested in the Sacramento region because of its proximity to their existing customer base, diverse workforce, and its excellent transportation access to the rest of the Western states.

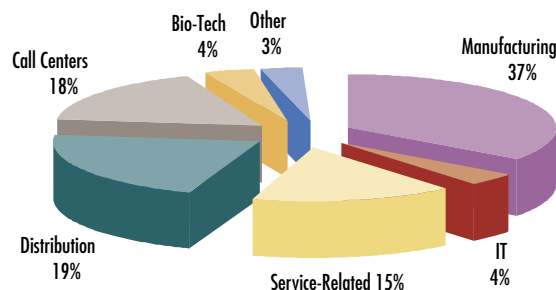
SACTO is also aggressively competing for several headquarters opportunities. The Sacramento region is now being viewed as a viable option for headquarters operations and is competing head-to-head with other major metropolitan cities, such as San Diego, San Francisco, Los Angeles, as well as other West Coast cities such as Portland and Seattle.

Because of the growth of the Sacramento region, service related companies continue to inquire about establishing a regional presence. A recently announced geoengineering company, GeoEngineers, Inc., is representative of the types of companies SACTO is assisting because of the expansion of the region's population growth and thriving economy. The professional services category represents 15% of all active SACTO prospects.

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly

ECONOMIC REPORT

A P U B L I C A T I O N B R O U G H T T O Y O U B Y S A C T O A N D
T H E S A C R A M E N T O R E G I O N A L R E S E A R C H I N S T I T U T E

SACTO  The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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 **SRRI**

ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

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